

CS FOR SENATE BILL NO. 192(FIN)

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-SEVENTH LEGISLATURE - SECOND SESSION

BY THE SENATE FINANCE COMMITTEE

Offered:

Referred:

Sponsor(s): SENATE RESOURCES COMMITTEE

A BILL**FOR AN ACT ENTITLED**

1 "An Act relating to the oil and gas production tax; relating to the minimum tax on oil
2 and gas production; relating to the tax rates applicable to the production of oil as the
3 gross value at the point of production of oil increases above \$65; relating to payments of
4 the oil and gas production tax; relating to the allocation of lease expenditures and
5 adjustments to lease expenditures; relating to the duties of the Department of Revenue;
6 relating to a petroleum information management system; relating to the duties of the
7 Alaska Oil and Gas Conservation Commission, the Department of Natural Resources,
8 and the Department of Labor and Workforce Development that relate to providing the
9 Department of Revenue with certain information relating to oil and gas; and providing
10 for an effective date."

11 **BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:**

12 * **Section 1.** AS 43.55.011(e) is amended to read:

(e) There is levied on the producer of oil or gas a tax for all oil and gas produced each calendar year from each lease or property in the state, less any oil and gas the ownership or right to which is exempt from taxation or constitutes a landowner's royalty interest. Except as otherwise provided under (f), (j), (k), and (o) of this section, the tax is equal to the sum of

(1) the annual production tax value of the taxable oil and gas as calculated under AS 43.55.160(a)(1) multiplied by 25 percent; and

(2) the sum, over all months of the calendar year, of the tax amounts determined under (g) of this section **on the gross value at the point of production of oil.**

* **Sec. 2.** AS 43.55.011(f) is repealed and reenacted to read:

(f) Except for oil and gas subject to (i) of this section and gas subject to (o) of this section, the provisions of this subsection apply to oil and gas produced from each lease or property within a unit or nonunitized reservoir that has cumulatively produced 1,000,000,000 BTU equivalent barrels of oil or gas by the close of the most recent calendar year and from which the average daily oil and gas production from the unit or nonunitized reservoir during the most recent calendar year exceeded 100,000 BTU equivalent barrels. Notwithstanding any contrary provision of law, a producer may not apply tax credits to reduce its total tax liability under (e) and (g) of this section for oil and gas produced from all leases or properties within the unit or nonunitized reservoir below 10 percent of the total gross value at the point of production of that oil and gas. If the amount of tax calculated by multiplying the tax rates in (e) and (g) of this section by the total production tax value of the oil and gas taxable under (e) and (g) of this section produced from all of the producer's leases or properties within the unit or nonunitized reservoir is less than 10 percent of the total gross value at the point of production of that oil and gas, the tax levied by (e) and (g) of this section for that oil and gas is equal to 10 percent of the total gross value at the point of production of that oil and gas.

* **Sec. 3.** AS 43.55.011(g) is repealed and reenacted to read:

(g) For each month of the calendar year for which the producer's average monthly gross value at the point of production for a barrel of taxable oil

(1) produced from each lease or property within a unit or nonunitized reservoir that has been in production for more than seven years or has cumulatively produced 1,000,000,000 barrels of oil by the close of the most recent calendar year and from which the average daily oil and gas production from the unit or nonunitized reservoir during the most recent calendar year exceeded 100,000 barrels of oil is more than \$65, the amount of tax for purposes of (e)(2) of this section is determined by multiplying the monthly gross value at the point of production of the taxable oil produced during the month by the tax rate calculated as follows:

(A) if the producer's average monthly gross value at the point of production for a barrel of the taxable oil for the month is not more than \$125, the tax rate is 0.25 percent multiplied by the number that represents the difference between that average monthly gross value at the point of production for a barrel of oil and \$65; or

(B) if the producer's average monthly gross value at the point of production for a barrel of taxable oil is more than \$125, the tax rate is the sum of 15 percent and the product of 0.05 percent multiplied by the number that represents the difference between the average monthly gross value at the point of production for a barrel of oil and \$125, except that the sum determined under this subparagraph may not exceed 20 percent;

(2) not included in (1) of this subsection is more than \$65, the amount of tax for purposes of (e)(2) of this section is determined by multiplying the monthly gross value at the point of production of the taxable oil produced during the month by the tax rate determined by multiplying 0.05 percent by the number that represents the difference between that average monthly gross value at the point of production for a barrel of oil and \$65, except that the tax rate determined under this paragraph may not exceed five percent.

* **Sec. 4.** AS 43.55.020(a) is amended to read:

(a) For a calendar year, a producer subject to tax under AS 43.55.011(e) - (i) shall pay the tax as follows:

(1) an installment payment of the estimated tax levied by AS 43.55.011(e) **and (g)**, net of any tax credits applied as allowed by law, is due for

each month of the calendar year on the last day of the following month; except as otherwise provided under (2) of this subsection, the amount of the installment payment is the sum of the following amounts, less 1/12 of the tax credits that are allowed by law to be applied against the tax levied by AS 43.55.011(e) for the calendar year, but the amount of the installment payment may not be less than zero:

(A) for oil and gas produced from leases or properties in the state outside the Cook Inlet sedimentary basin but not subject to AS 43.55.011(o), other than leases or properties subject to AS 43.55.011(f), the greater of

(i) zero; or

(ii) the sum of **the tax determined under**

AS 43.55.011(g) on the gross value at the point of production for oil produced for the month added to the product of 25 percent and [THE TAX RATE CALCULATED FOR THE MONTH UNDER AS 43.55.011(g) MULTIPLIED BY] the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible for the leases or properties under AS 43.55.160 from the gross value at the point of production of the oil and gas produced from the leases or properties during the month for which the installment payment is calculated;

(B) for oil and gas produced from leases or properties subject to AS 43.55.011(f), the greater [GREATEST] of

(i) 10 percent of the gross value at the point of production for oil and gas described in AS 43.55.011(f) [ZERO;

(ii) ZERO PERCENT, ONE PERCENT, TWO PERCENT, THREE PERCENT, OR FOUR PERCENT, AS APPLICABLE, OF THE GROSS VALUE AT THE POINT OF PRODUCTION OF THE OIL AND GAS] produced [FROM ALL LEASES OR PROPERTIES] during the month for which the installment payment is calculated; or

(ii) [(iii)] the sum of the tax determined under AS 43.55.011(g) on the gross value at the point of production for oil produced for the month added to the product of 25 percent and the tax rate calculated for the month under AS 43.55.011(g) [MULTIPLIED BY] the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible for those leases or properties under AS 43.55.160 from the gross value at the point of production of the oil and gas produced from those leases or properties during the month for which the installment payment is calculated;

(C) for oil and gas produced from each lease or property subject to AS 43.55.011(j), (k), or (o), the greater of

(i) zero; or

(ii) the sum of the tax determined under AS 43.55.011(g) on the gross value at the point of production for the oil produced for the month added to the product of 25 percent and [THE TAX RATE CALCULATED FOR THE MONTH UNDER AS 43.55.011(g) MULTIPLIED BY] the remainder obtained by subtracting 1/12 of the producer's adjusted lease expenditures for the calendar year of production under AS 43.55.165 and 43.55.170 that are deductible under AS 43.55.160 for oil or gas, respectively, produced from the lease or property from the gross value at the point of production of the oil or gas, respectively, produced from the lease or property during the month for which the installment payment is calculated;

(2) an amount calculated under (1)(C) of this subsection for oil or gas produced from a lease or property subject to AS 43.55.011(j), (k), or (o) may not exceed the product obtained by carrying out the calculation set out in AS 43.55.011(j)(1) or (2) or 43.55.011(o), as applicable, for gas or set out in AS 43.55.011(k)(1) or (2), as applicable, for oil, but substituting in

1 AS 43.55.011(j)(1)(A) or (2)(A) or 43.55.011(o), as applicable, the amount of taxable
2 gas produced during the month for the amount of taxable gas produced during the
3 calendar year and substituting in AS 43.55.011(k)(1)(A) or (2)(A), as applicable, the
4 amount of taxable oil produced during the month for the amount of taxable oil
5 produced during the calendar year;

6 (3) an installment payment of the estimated tax levied by
7 AS 43.55.011(i) for each lease or property is due for each month of the calendar year
8 on the last day of the following month; the amount of the installment payment is the
9 sum of

10 (A) the applicable tax rate for oil provided under
11 AS 43.55.011(i), multiplied by the gross value at the point of production of the
12 oil taxable under AS 43.55.011(i) and produced from the lease or property
13 during the month; and

14 (B) the applicable tax rate for gas provided under
15 AS 43.55.011(i), multiplied by the gross value at the point of production of the
16 gas taxable under AS 43.55.011(i) and produced from the lease or property
17 during the month;

18 (4) any amount of tax levied by AS 43.55.011(e) and (g) or (i), net of
19 any credits applied as allowed by law, that exceeds the total of the amounts due as
20 installment payments of estimated tax is due on March 31 of the year following the
21 calendar year of production.

22 * **Sec. 5.** AS 43.55.160(c) is amended to read:

23 (c) Notwithstanding any contrary provision of AS 43.55.150, for purposes of
24 calculating the tax due under AS 43.55.011(g) [A MONTHLY PRODUCTION TAX
25 VALUE UNDER (a)(2) OF THIS SECTION], the gross value at the point of
26 production of the oil and gas is calculated under regulations adopted by the department
27 that provide for using an appropriate monthly share of the producer's costs of
28 transportation for the calendar year.

29 * **Sec. 6.** AS 43.55.160 is amended by adding new subsections to read:

30 (f) For purposes of (a) of this section, a lease expenditure is applicable to oil
31 or gas produced from a lease or property, or to oil or gas produced from leases or

1 properties in an area of the state, if the lease expenditure is

2 (1) a cost to explore, develop, or produce oil or gas from that lease or
3 property, or to explore, develop, or produce oil or gas from one of those leases or
4 properties in that area of the state, respectively; and

5 (2) incurred on or after the commencement of commercial production
6 of oil or gas from the lease or property.

7 (g) For purposes of (a) of this section, a lease expenditure incurred during a
8 calendar year to explore land that is not a lease or property, or to explore or develop a
9 lease or property before commencement of commercial production of oil or gas from
10 the lease or property, shall be allocated as provided in a regulation adopted by the
11 department under AS 43.55.165(h) to and among oil, gas subject to AS 43.55.011(o),
12 and gas not subject to AS 43.55.011(o) produced by the producer during that calendar
13 year from leases or properties in the same area of the state as the land being explored
14 or the lease or property being explored or developed, respectively.

15 (h) For purposes of (f) and (g) of this section, an area of the state is one of the
16 following:

17 (1) land north of 68 degrees North latitude;
18 (2) land outside the Cook Inlet sedimentary basin not including any
19 land north of 68 degrees North latitude; or
20 (3) the Cook Inlet sedimentary basin.

21 * **Sec. 7. AS 43.55.165(h) is amended to read:**

22 (h) The department shall adopt regulations that provide for reasonable
23 methods of allocating costs between oil and gas, between gas subject to
24 AS 43.55.011(o) and other gas, and between leases or properties in those
25 circumstances where an allocation of costs is required to determine lease expenditures
26 that are costs of exploring for, developing, or producing oil deposits or costs of
27 exploring for, developing, or producing gas deposits, or that are costs of exploring for,
28 developing, or producing oil or gas deposits located within different leases or
29 properties. **When adopting a regulation for determining a reasonable method of**
30 **allocating lease expenditures between the production of oil and the production of**
31 **gas, the department shall, to the extent possible, provide for the allocation of**

1 **lease expenditures in proportion to the gross value at the point of production for**
2 **oil produced and gas produced.**

3 * **Sec. 8.** AS 43.55.170 is amended by adding a new subsection to read:

4 (d) The department shall adopt regulations that provide for reasonable
5 methods of allocating the adjustments to a producer's lease expenditures in (a) of this
6 section and the payments and credits described in (b) of this section between oil and
7 gas, between gas subject to AS 43.55.011(o) and other gas, and between leases or
8 properties in those circumstances where an allocation of costs is required to determine
9 lease expenditures that are costs of exploring for, developing, or producing oil
10 deposits, or costs of exploring for, developing, or producing gas deposits, or that are
11 costs of exploring for, developing, or producing oil or gas deposits located within
12 different leases or properties. When determining a reasonable method of allocating the
13 adjustments to a producer's lease expenditures between the production of oil and the
14 production of gas, the department shall consider allocating the adjustments in
15 proportion to the lease expenditures allocated to the production of oil and the
16 production of gas under regulations adopted by the department under
17 AS 43.55.165(h).

18 * **Sec. 9.** AS 44.25 is amended by adding a new section to read:

19 **Sec. 44.25.025. Petroleum information management system.** (a) The
20 Department of Revenue shall develop and maintain an electronic petroleum
21 information management system to collect, secure, distribute, store, retrieve, and
22 archive information related to oil and gas exploration, development, and production in
23 the state. The purposes of the petroleum information management system are to
24 improve the administration of the oil and gas production tax and to facilitate
25 exploration, development, and production of oil and gas resources. The petroleum
26 information management system shall be accessible by the public.

27 (b) To the extent the information is available and is not confidential, the
28 petroleum information management system must include the following information:

29 (1) unit and joint operating agreements;
30 (2) state oil and gas exploration licenses and oil and gas leases;
31 (3) for exploration activities,

1 (A) exploration work programs and budgets;

2 (B) seismic data;

3 (C) drilling reports;

4 (D) logs;

5 (E) well tests;

6 (F) geological models and maps;

7 (4) for development activities,

8 (A) development plans with operating and capital expenditure
9 projections;

10 (B) construction progress reports;

11 (C) drilling reports;

12 (D) reservoir characterization;

13 (5) for production activities,

14 (A) production work programs and budgets;

15 (B) oil and gas sales, revenue, and pricing;

16 (C) transportation agreements;

17 (D) production data;

18 (E) injection data;

19 (F) operating and capital expenditures;

20 (G) facility maps and studies;

21 (6) for abandonment of oil and gas wells, leases, and production and
22 transportation facilities,

23 (A) abandonment plans and budgets;

24 (B) progress reports;

25 (7) for oil and gas related employment information,

26 (A) the number of resident and nonresident hires for each year;

27 (B) training opportunities; and

28 (8) other information the Department of Revenue determines necessary
29 and relevant to the oil and gas production tax and to the exploration, development, and
30 production of oil and gas resources.

31 (c) The Alaska Oil and Gas Conservation Commission, the Department of

Natural Resources, and the Department of Labor and Workforce Development, in consultation with the Department of Revenue, shall provide information described in (b) of this section that is not confidential and within the control of the commission and each department to the Department of Revenue for inclusion in the petroleum information management system. The information provided by the Alaska Oil and Gas Conservation Commission or by a department under this subsection shall be in a form suitable for the Department of Revenue to include in the petroleum information management system.

* **Sec. 10.** AS 43.55.160(a)(2) is repealed.

* **Sec. 11.** The uncodified law of the State of Alaska is amended by adding a new section to read:

IMPLEMENTATION OF THE PETROLEUM INFORMATION MANAGEMENT SYSTEM. The Department of Revenue shall develop and implement a work plan for the development of the petroleum information management system required by AS 44.25.025, enacted by sec. 9 of this Act, so that the system is operational before January 1, 2014.

* **Sec. 12.** This Act takes effect January 1, 2013.